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Annuities are notorious for not addressing inflation during one's retirement years. If you include an annuity option in 401ks, you need to address the inflation issue the retiree will face. One approach I have seen used is for the annuity to offer an option of a fixed percent increase in the payment each year, but such an option is a rare exception.

Another issue that needs to be addressed if private insurance companies are used to provide the annuities is what to do if the insurer goes bankrupt. Think what would have happened if the government hadn't bailed out AIG.

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